

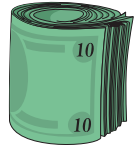
# Kentucky Tax Alert



A KRC PUBLICATION FOR THE TAX PROFESSIONAL

September 1999 • Vol. 18, No. 5

## Refund Offsets and Checkoff Programs for 1998 Individual Income Tax Returns



Pursuant to KRS 131.560, KRC collects delinquent debts owed to participating agencies by deducting those amounts from individual income tax refund checks.

Below are the amounts offset from 1998 refunds and credited to debts owed to participating agencies:

Program or Agency	Number of Offsets	Amount Offset
Child Support (Families and Children)	12,808	\$ 2,005,149
Unemployment Insurance (Workforce Dev.)	2,763	358,645
Higher Education	3,266	467,412
Natural Resources	60	14,902
Unemployment Insurance (Workforce Dev.) (Tax Collection)	108	17,604
Aid to Families with Dependent Children (Families and Children)	2,318	278,249
Multiple Programs (Families and Children and Health and Human Services Cabinets)	496	74,913
Transportation (Office of General Counsel)	8	1,075
Absent Parent (Families and Children)	207	33,244
Medical Assistance (Families and Children)	6	835

**Total: \$3,252,028**

Below are the number of contributors and amounts checked off by Kentucky taxpayers for the five funds appearing on the 1998 individual income tax return:

Fund	Number	Amount
Bluegrass State Games	3,521	\$ 17,022
Child Victims Trust	14,779	83,405
Nongame Wildlife/Natural Areas	14,262	88,064
Veterans Fund	4,803	28,159
Democratic Party	48,014	126,540
Republican Party	29,071	81,804

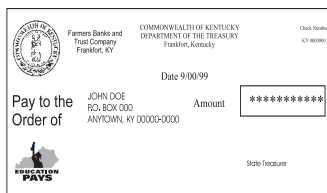
**Total: \$424,994**

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## State-Issued Checks Have New Look

Beginning July 1, 1999, checks issued by the Commonwealth of Kentucky took on a new look. The old system for printing checks was replaced with state-of-the-art equipment, giving the checks a new look. State checks are no longer blue and enclosed in a brown envelope. Checks are now printed on 8 1/2" by 11" white paper. More information is included with the check because the laser printers can print additional information on check stubs, such as a phone number for the recipient to call for information.



The old system printed separate checks for insertion into envelopes. The new equipment prints and seals checks for mailing, saving printing, postage, and handling costs.

The change in the process is part of Gov. Paul Patton's *EMPOWER Kentucky* initiative to improve and modernize administrative services throughout state government.



## University of Kentucky Schedules Income Tax Seminars

The University of Kentucky College of Agriculture is conducting income tax seminars at various sites across the commonwealth with the assistance of KRC personnel. Fourteen two-day seminars are tentatively scheduled during November and December.

The registration fee is \$185 per person. Every participant receives a copy of the workbook, a Master Tax Guide, the KRC workbook, and various Internal Revenue Service publications.

The Kentucky Board of Accountancy has approved the seminars for 16 hours of CPE credit. Attorneys must apply directly to the Kentucky Bar Association for CLE credit.

Registration brochures will be mailed in mid-September. Anyone who attended a tax workshop in the past two years should receive a brochure in the mail. Brochures are available in local county extension offices after Sept. 30, 1999, or can be obtained by contacting the Department of Agricultural Economics, University of Kentucky, 400 Agricultural Engineering Building, Lexington, KY 40546-0276, (606) 257-7292.

Workshop dates and locations are as follows:

DATE	LOCATION
<b>Nov. 4-5</b>	Lexington—Embassy Suites, 1801 Newtown Pike
<b>Nov. 15-16</b>	Bardstown—Holiday Inn, 1875 New Haven Road
<b>Nov. 16-17</b>	London—Days Inn, 2035 Highway 192 West
<b>Nov. 22-23</b>	Prestonsburg—Jenny Wiley State Park, 419 Jenny Wiley Road
<b>Nov. 29-30</b>	Ashland—Ashland Plaza Hotel, One Ashland Plaza
<b>Nov. 29-30</b>	Hopkinsville—Holiday Inn, 2910 Fort Campbell Boulevard
<b>Dec. 1-2</b>	Maysville—French Quarter Suites, 25 East McDonald Parkway
<b>Dec. 1-2</b>	Paducah—JR's Executive Inn, One Executive Boulevard
<b>Dec. 6-7</b>	Northern Kentucky (Burlington)—Boone County Extension Office, 6028 Camp Ernst Road
<b>Dec. 6-7</b>	Bowling Green—University Plaza Hotel, 1021 Wilkinson Trace
<b>Dec. 8-9</b>	Louisville—Hyatt Regency, 320 West Jefferson
<b>Dec. 14-15</b>	Somerset—Center for Rural Development, 2292 South Highway 27
<b>Dec. 14-15</b>	Owensboro—Executive Inn, 1 Executive Boulevard
<b>Dec. 16-17</b>	Lexington—Marriott's Griffin Gate, 1800 Newtown Pike

## KRC, IRS Sponsor Electronic Filing Seminars

KRC and the Internal Revenue Service (IRS) will sponsor eight seminars on electronic filing of individual income tax returns at various sites across the state. Each seminar runs from 9 a.m. to noon local time. Registration is recommended to help KRC and the IRS plan the seminars, and to allow participants to be advised of any changes.



Seminars will be held at the following locations:

DATE	LOCATION
Oct. 20	Ashland—Fire Department Building, 1021 Carter Avenue
Oct. 21	Corbin—Cumberland Falls State Park Meeting Room
Oct. 22	Lexington—Lexington Public Library, Main Street
Nov. 3	Bowling Green—Bowling Green Public Library, 2700 Nashville Road
Nov. 4	Paducah—Paducah Public Library, Main Street
Nov. 5	Owensboro—Daviess County Public Library, 450 Griffith Avenue
Nov. 8	Burlington—Boone County Extension Office, 6028 Camp Ernst Road
Nov. 9	Louisville—East Jefferson County Government Center, 200 Juneau Drive

To register, tax practitioners should complete the registration form sent to them by Betty Martin of the IRS. Practitioners who do not receive a registration form should call KRC at (502) 564-5370 to request the form.



## Procedures for Requesting Letters of Good Standing

KRC's Corporation Tax Section issues letters of good standing and tax status letters for corporations. Because of the confidentiality of the information in the tax returns, the request must be signed by an officer of the corporation or the person designated by the corporation to handle tax issues.



The request may also be submitted by a person having a valid power of attorney for federal tax matters for the corporations. A copy of the power of attorney should be sent along with the request.

The requester should state the purpose of the request. Examples are to have a corporation reinstated with the Kentucky secretary of state, or for a bank closing, sale of property, or other financial transaction. The Secretary of State accepts only the original letter from KRC, so the response cannot be faxed if it is for reinstatement purposes. If the requester needs the letter sent via an overnight shipping service, the billing account number must be furnished. There is no charge for letters of good standing, but express shipping charges are the responsibility of the corporation requesting the information.

Requests should be sent to Corporation Tax Section, Kentucky Revenue Cabinet, 200 Fair Oaks Lane, P.O. Box 1302, Frankfort, KY 40602-1302. Requests may also be faxed to (502) 564-3392. For additional information or questions, call (502) 564-8139.

## KRC Offices Closed for Veterans Day

In accordance with KRS 18A.190 and Senate Bill 33, as enacted by the 1998 General Assembly, all KRC offices will be closed on Thursday, Nov. 11, 1999, in observance of Veterans Day.



## Louis A. Grief Tax Institute Scheduled

The 47th Annual Louis A. Grief Tax Institute will be held on Dec. 15-17, 1999, at the University of Louisville. Registration is \$150 before Dec. 1, 1999, and 24 hours of CPE credit are provided (19.25 CPE hours for attorneys). For more information, call the University of Louisville at (502) 852-5847.

## KRC Awards \$243,591 for Technology Projects

KRC's Department of Property Valuation, in conjunction with the Kentucky Property Valuation Administrators (PVA) Association, awarded \$243,591 in grants under the Innovative Technology Fund Grant Program. The PVA offices in the 15 counties awarded grants will contribute a total of \$62,163, for a total project expenditure of \$305,754.



Award winners were:

- ♦ Ballard County PVA Delores Hatler proposed to establish a geographic information system (GIS)-based farm assessment system, utilizing global positioning system (GPS) equipment and software, and a network upgrade. This project was funded in the amount of \$23,019, with a local match of \$5,755.
- ♦ Bell County PVA Geraldine Jeffers proposed to develop GIS capability for implementing the conventional mapping project currently in operation, as well as integrating with the 911 system, in cooperation with the Bell County Fiscal Court and the Cumberland Valley Area Development District. This project was funded in the amount of \$28,190, with a local match of \$7,047.
- ♦ Former Boone County PVA David Turner proposed to initiate an automated data collection project utilizing laptop computers. This project was funded in the amount of \$12,000, with a local match of \$3,000.
- ♦ Crittenden County PVA Ronnie Heady proposed to upgrade his old CADD-based farm assessment system to GIS, for use with all classes of property. This project was funded in the amount of \$15,990, with a local match of \$3,997.
- ♦ Edmonson County PVA Benton Cowles proposed to acquire a scanner and upgrade his existing TRIM network with a Y2K-compatible computer and a digital camera. This project was funded in the amount of \$5,287, with a local match of \$1,322.
- ♦ Fleming County PVA Connie Crain proposed a GIS with GPS control, digital photography, and NT network upgrade. This project was funded in the amount of \$14,560, with a local match of \$3,640.
- ♦ Hart County PVA Mary Bunnell proposed a network upgrade for the existing TRIM system and to accommodate a proposed GIS project, including a new server/workstation, scanner, and Windows NT operating system. This project was funded in the amount of \$15,026, with a local match of \$3,757.
- ♦ Lincoln County PVA David Gambrel proposed a major upgrade of his existing TRIM network, enhanced with GIS/GPS, and digital camera capability. This project was funded in the amount of \$28,428, with a local match of \$7,107.
- ♦ Logan County PVA Ben Brown proposed implementing a GIS data collection project, acquiring GPS equipment and software. This project was funded in the amount of \$9,040, with a local match of \$2,260.
- ♦ Marshall County PVA Ann Riley proposed adding GPS capability to the PVA office, utilizing Trimble GPS equipment, training, and a notebook computer. This project was funded in the amount of \$11,995, with a local match of \$2,999.
- ♦ Morgan County PVA Darrell Bradley proposed acquiring digital photography capability, utilizing a Sony Mavica camera and a Photo Smart Printer. This project was funded in the amount of \$770, with a local match of \$193.
- ♦ Pike County PVA Lonnie Osborne proposed a full scale GIS implementation, with access to the software from 15 workstations on a Windows NT network, and five digital cameras. This project was funded in the amount of \$34,942, with a local match of \$10,000.
- ♦ Rowan County PVA C.J. Baker proposed a system to give the PVA office and taxpayers access to the county clerk's computerized (deed) indexing system. This project was funded in the amount of \$6,000, with a local match of \$1,500.
- ♦ Trigg County PVA Mike Bryan proposed the implementation of a GIS/GPS system in cooperation with the Trigg County Fiscal Court and the Pennyryle Area Development District. This project was funded in the amount of \$18,344, with a local match of \$4,586.
- ♦ Webster County PVA Jeff Kelley proposed a GIS/GPS system, including a server, three workstations, GPS equipment, a notebook computer, a digital camera, and a plotter. This project was funded in the amount of \$20,000, with a local match of \$5,000.

In addition to the 20 percent match requirement, grant recipients were required to submit progress reports on project implementation, as well as offer workshops or other demonstrations at the request of the Department of Property Valuation. The results of this funding should also be apparent in the methods utilized in 21 PVA offices, with improved assessment quality and taxpayer service as the ultimate result.

The Innovative Technology Fund was established in 1996 as a means to promote the use of technology among the state's PVA offices. The initial funding was in the amount of \$300,000. Last year, \$178,562 was awarded to six counties, leaving \$121,438 in the fund. This year, PVAs proposed projects totaling over \$500,000. KRC was able to more than double the amount of money in the grant pool so that additional projects could be funded. Grant awards were determined by a committee of information technology and management personnel.

40A727  
10-99**KENTUCKY INCOME TAX  
FORMS REQUISITION****FROM: Revenue Cabinet  
Frankfort, KY 40620**

The label at right will be used to mail your forms. **Do not detach.**  
Please prepare a duplicate address below for our files.

Name \_\_\_\_\_

Street \_\_\_\_\_

City, State \_\_\_\_\_

and ZIP \_\_\_\_\_

Phone (\_\_\_\_) \_\_\_\_\_

Date Ordered \_\_\_\_\_

**TO:** Name \_\_\_\_\_

Street \_\_\_\_\_

City, State  
and ZIP Code \_\_\_\_\_**Check one:** ☐ Individual ☐ Attorney ☐ CPA ☐ Tax Practitioner ☐ Other \_\_\_\_\_**Package K** (contains all individual, fiduciary, partnership, corporation  
and S corporation income tax forms, schedules and instructions) ..... Quantity **➤**

FORMS	ISSUANCE NO.	QUANTITY
740—Kentucky Individual Income Tax Return	42A740	*
740/740-S/740-EZ—Instructions	42A740-S11	
740-EZ—Kentucky Individual Income Tax Return	42A740-EZ	*
740-S—Kentucky Individual Income Tax Return	42A740-S	*
740-X—Amended Kentucky Individual Income Tax Return	42A740-X	
740-NP—Nonresident or Part-Year Resident Income Tax Return	42A740-S9	
Schedules A & ME (740-NP)—Itemized Deductions and Moving Expense Reimbursement	42A740-S9 (A & ME)	
740-NP Packet	42A740-S10	
740-NP-R—Nonresident Income Tax Return—Reciprocal State	42A740-S9-R	
740-ES—2000 Estimated Tax Voucher	42A740-ES	*
740-ES—Instructions	42A740-S4	
Schedule A (740)—Itemized Deductions	Schedule A	*
Schedule M—Kentucky Federal Adjusted Gross Income Modifications	42A740-M	*
Schedule P—Pension Income Exclusion	42A740-P	*
Schedule TC—Tax Computation Schedule	42A740-TC	*
Schedule UTC—Unemployment Tax Credit	42A740-UTC	*
1045-K—Kentucky Net Operating Loss Application for Income Tax Refund	42A740-S20	*
1045-K—Instructions	42A740-S20(I)	
2210-K—Underpayment of Estimated Tax by Individuals	42A740-S1	*
4972-K—Kentucky Tax on Lump-Sum Distributions	42A740-S21	*
8453-K—Kentucky Individual Income Tax Declaration for Electronic Filing	42A740-S22	
740-V—Kentucky Electronic Payment Voucher	42A740-S23	
8582-K—Kentucky Passive Activity Loss Limitations	42A740-S18	*
Application for Extension of Time to File Return (Individual, Partnership, Fiduciary)	40A102	

**\*Forms shaded and marked with an  
asterisk(\*) are provided at no charge.**

Total Forms—Page 1 .....

Total Forms—Page 2 .....

Total Forms Provided at No Charge .....

Total Forms ..... ➤

Package K ..... x \$6.00 (each additional \$5.00) .....

Total Forms ..... x \$\_\_\_\_\_ each (see Forms Cost Schedule below) .

Envelopes ..... x \$3.00 per group of 100 .....

Subtotal .....

Sales Tax (6%) (Kentucky residents only) .....

**TOTAL** ..... ➤**Forms Cost Schedule**

1 - 24	NC
25 - 74	\$.09 each
75 - 100	.07
101 - 200	.06
201 - 500	.05
over 500	.04

**Make check payable to:****Mail order form and check to:**

Kentucky State Treasurer

Kentucky Revenue Cabinet

FORMS

P.O. Box 518

Frankfort, Kentucky 40602-0518

# IMPORTANT\*

Use only forms provided by the Revenue Cabinet or an approved computer-generated version of this year's income tax forms. Data must be placed in specific areas on the return to be read correctly by Revenue's new scanning and imaging equipment. *Use of photocopies or faxed copies may delay refunds.*

\*Applies to forms shaded and marked with an asterisk(\*) .

*\*Forms shaded and marked with an asterisk(\*) are provided at no charge.*

FORMS	ISSUANCE NO.	QUANTITY
741—Kentucky Fiduciary Income Tax Return	42A741	
741—Instructions	42A741(I)	
741-D—Capital Gains and Losses	42A741-D	
Schedule K-1 (741)—Beneficiary's Share of Income, Deductions, Credits, etc.	42A741 (K-1)	
765—Kentucky Partnership Income Return	42A765	
765—Instructions	42A765(I)	
Schedule K-1 (765)—Partner's Share of Income, Credits, Deductions, etc.	42A765 (K-1)	
720—Kentucky Corporation Income and License Tax Return	41A720	*
720—Instructions	41A720(I)	
720S—Kentucky S Corporation Income and License Tax Return	41A720S	*
720S—Instructions	41A720S(I)	
Schedule K-1 (720S)—Shareholder's Share of Income, Credit, Deductions, etc.	41A720S (K-1)	*
720X—Amended Kentucky Corporation Income Tax and Corporation License Tax Return	41A720X	
720ES—Corporation Estimated Income Tax Voucher	41A720ES	*
720ES—Instructions	41A720-S4	
Schedule A (720)—Apportionment and Allocation	41A720A	*
Application for Extension of Time to File KY Corporation Income and License Tax Return	41A720SL	*
Schedule EZC—Kentucky Enterprise Zone Tax Credit	41A720EZC	*
Schedule HH—Housing for Homeless Families Deduction	41A720HH	*
Schedule RC—Application for Income Tax Credit for Recycling and/or Composting Equipment	41A720RC	*
Schedule RC(C)—Continuation Sheet for Schedule RC	41A720RC(C)	*
Schedule RC (K-1)—Pro Rata/Distributive Share of Recycling Equipment Tax Credit	41A720RC (K-1)	*
722—Election to File Consolidated Kentucky Corporation Income Tax Return	41A722	*
851-K—Kentucky Affiliations and Payment Schedule	41A851-K	*
Total Forms—Page 2 (enter here and on page 1) .....		
▶		
ENVELOPES (Available in groups of 100 only)		
▶		
Refund 6" x 9" Blue—Enter number of groups here and on page 1 .....		
▶		
Payment 6" x 9" Yellow—Enter number of groups here and on page 1 .....		
▶		

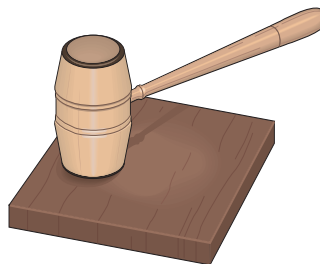


## Court Case Updates

**Individual Income Tax**—In **Gordon E. Smith v. Revenue Cabinet**, 98-CI-00133, the Taylor Circuit Court held that a Canadian teacher's pension income was not exempt from Kentucky individual income tax by virtue of a treaty, the *Convention Between the United States of America and Canada with Respect to Taxes on Income and on Capital*. The circuit court also rejected the taxpayer's argument that **Davis v. Michigan Dept. of Treasury**, 489 U.S. 803 (1989) required this pension income to be exempt, observing that "Davis required that the federal government pension benefits be treated the same as state government pension benefits, but it does not go so far as to say that all government benefits, including other states or countries, be treated the same."

The taxpayer did not appeal this decision, which affirms an earlier Kentucky Board of Tax Appeals decision in KRC's favor.

**Sales and Use Tax**—In **Popplewell's Alligator Dock No. 1, Inc., v. Revenue Cabinet**, 98-CI-01578, the taxpayer operated a marina on Lake Cumberland in Russell County. As part of its business, the taxpayer rented luxury houseboats to vacationers for recreational purposes. The lessees of the houseboats did not themselves use the houseboats to transport property or convey persons for hire. The taxpayer collected and remitted sales tax on these houseboat rentals.



The taxpayer also sold gasoline at the marina in connection with the houseboat rentals. The vacationers received the houseboats with a full tank of gasoline and were required to pay for gasoline consumed in the operation of the houseboats during the term of the rental. The taxpayer did not collect and remit sales and use tax on these gasoline sales and KRC accordingly issued the taxpayer an assessment.

The taxpayer's sole contention in opposition to the assessment was that the gasoline sales in question were exempt from tax under KRS 139.483 as "fuel consumed in the operation of...ships and vessels which are used principally in the transportation of property or in the conveyance of persons for hire."

Affirming an earlier Kentucky Board of Tax Appeals decision, the Franklin Circuit Court held in an opinion and order entered on July 15, 1999, that KRS 139.483 did not apply to exempt the taxpayer's gasoline sales. The houseboats in question were not used principally in the transportation of property or conveyance of persons for hire. Instead, the vacationers rented these houseboats for their personal pleasure and recreational purposes.

The taxpayer has appealed the Franklin Circuit Court decision in this case to the Kentucky Court of Appeals.

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## Filing Requirements for Qualified Subchapter S Subsidiaries

KRC often receives requests for information concerning filing requirements for income and license taxes, frequently involving a Qualified Subchapter S Subsidiary (QSSS), an S corporation, and an individual shareholder of the S corporation. Because the information requested is complex, the filing requirements for these taxpayers require the use of several sections of the Kentucky income and license tax laws. KRC offers these tips to understand these provisions of Kentucky income and license tax laws.

Kentucky income tax law adopts the use of the Internal Revenue Code (IRC) and requires that identical methods of accounting be used for Kentucky income tax and federal income tax, under KRS 141.010(3), 141.140 and 141.050. Since a QSSS is treated as a nonentity for federal income tax purposes, a QSSS will be treated in the same manner for Kentucky income tax purposes. In this event the parent corporation files the Kentucky income tax return based on the inclusion of the income from the QSSS as if such income were derived from a division or a branch of the parent corporation.

Shareholders of S corporations are required to report the income from their proportionate share of the income from the S corporation based on the business activity conducted in Kentucky, under KRS 141.206(4) and 141.206(5). Therefore, since the S Corporation must file an income tax return with Kentucky, the individual shareholders are required to file individual income tax returns for Kentucky income tax purposes.

Kentucky license tax law does not rely on the use of the IRC for accounting methods. The license tax law requires that the QSSS and the parent review their filing requirements on a separate entity basis for license tax, under KRS 136.070. Generally, license tax returns for a taxable year are filed on a separate entity basis unless specific conditions are met to permit the corporations to file a consolidated license tax return, under KRS 136.071 and 136.100(3).

For more information, contact KRC's Corporation Tax Section at (502) 564-8139.



## ADDRESS CHANGE

### Taxpayers Should Inform KRC of Address Changes

Taxpayers whose addresses changed during the past year should inform KRC of their new address so individual income tax forms may be sent to the proper location.

Send address change notifications to Kentucky Revenue Cabinet, 1266 Louisville Road, Frankfort, KY 40620.

**Kentucky Tax Alert** is a bimonthly publication printed on recycled paper, the costs of which are paid from state funds.

Comments, suggestions and mailing list additions or corrections should be addressed to the Public Information and Communication Services Branch, Revenue Cabinet, Station 14, Frankfort, Kentucky 40620, (502) 564-4592.

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KRC can be found on the World Wide Web at  
<http://www.state.ky.us/agencies/revenue>

*To provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.*

Mission Statement

Kentucky Revenue Cabinet

COMMONWEALTH OF KENTUCKY  
 REVENUE CABINET  
 FRANKFORT, KENTUCKY 40620

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